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KORN/FERRY INTERNATIONAL

1985 ANNUAL BOARD OF DIRECTORS STUDY

OF RETAIL COMPANIES

KORN/FERRY INTERNATIONAL

--Retail Division--

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Introduction

For the past 12 years, Korn/Ferry International has surveyed 1,000 of the nation's most prominent corporations to identify and gain insight into significant trends affecting the structure and behavior of corporate boards. As part of our annual study, we make a special study of the data pertaining to the boards of retail industry participants.

This year, of the record 633 corporations that responded to our annual study, four percent were retailers. Industrial and service corporations accounted for 77 percent of the total, banks and other financial institutions, 11 percent and insurance companies, eight percent.

Summary of Findings

On a question-by-question basis, the following findings relate directly to retail industry respondents (Table 1). Whenever appropriate, comparisons are made between this group and all participants in our study.

1. **Size of Board (Table 2)**

   Retailers showed a marked increase in board size. Boards of directors of retail respondents have an average of 16 members, compared with 13 in 1983 and 13 for all respondents. The largest retailers (companies with revenues of $2 billion or more) average 19 directors, equal to the size of the largest boards -- those of banks and

financial institutions.

2. **Inside Directors vs. Outside Directors (Table 2)**

The retail boards are composed of five inside and 11 outside directors, one inside director and two outside directors more than the boards of all respondents. Retailers increased the number of outside members from eight reported in 1983 to 11 this year. Eighty percent prefer that more than half their board come from outside the company (compared with 83 percent for all respondents). Only 20 percent prefer three-quarters or more to be outside directors (vs. 36 percent of all respondents).

3. **Is the Chairman also the CEO? Is the CEO also the COO? (Table 3)**

Seventy-five percent of the retail respondents report that their chairman is also their chief executive officer. Forty-eight percent note that their chief executive officer is also their chief operating officer, a six percent increase over 1983.

4. **Board Composition (Table 4)**

Retailers continue to rely on senior executives of other companies as the primary source for outside directors; and the percentage of retailers having these executives on their boards has increased to 84 percent, up from 76 percent last year. Retired executives of other companies

are another important source for outside directors; their representation remains at 64 percent, the same as last year.

Sixty-eight percent of the retailers have women on their boards -- well above the 45 percent for all respondents and a seven percent increase over last year's representation for retail boards (Table 4A). Among the largest retailers ($2 billion and over), 88 percent have women on their boards -- the highest percentage of any group responding. Retailers draw their outside women directors primarily from academia and the ranks of senior executives of other companies. (Table 4B). Minorities sit on 40 percent of retail boards, compared with 26 percent of all respondents. This year, minority representation on retail boards increased compared to the percentage for all respondents which remained the same as last year's figure. Minorities are primarily senior executives of other companies and academicians.

Other groups that are highly represented on retail boards include academicians (on 56 percent), major shareholders who are not officers of the company (36 percent), and attorneys who provide legal services (36 percent).

In 1983, we mentioned major shifts in the composition of retail boards over the previous five years. In 1984, the

following should be noted:

-Retired or previously employed corporate officers continue to decrease from 59 percent in 1980 and 52 percent in 1983, to 32 percent in 1984.

-Commercial bankers have declined from 41 percent in 1980 and 27 percent in 1983 to 20 percent in 1984.

-Attorneys who provide legal services to the company fell from 41 percent in 1980 to 27 percent in 1983, but rebounded to 36 percent this year.

-Investment bankers slipped from 25 percent in 1980 to 24 percent in 1983 but rose to 32 percent in 1984.

On the other hand, groups experiencing continuous increases in representation since 1980 include:

-Women (from 50 percent to 68%).

-Ethnic minorities (from 19 percent to 40 percent).

5. Committees (Table 5)

The most prevalent committees among the retail respondents continue to be the audit committee (reported by 100 percent of the respondents), compensation (reported by 88 percent), and executive (reported by 84 percent) (Table 5A). Sixty-four percent of the retailers have a nominating committee, up from 58 percent last year. Of these, 69 percent note that the nominating committee participates in board committee appointment, the most of all respondents. With the compensation and executive committees, the

nominating committee plays a significant role in the management succession process in retail organizations.

The public affairs and finance committees are the largest, averaging six directors each. All other committees average four or five members. Overall, committee size increased this year. The finance committee gained one outside director, and the corporate ethics committee which was represented in only one retail company in 1983, gained in popularity, and was now reported by four. The audit committee is composed entirely of outside directors while the executive and finance have the most inside directors--two (Table 5B).

All committees average between two and four meetings per year (Table 5C). The finance and benefits committees increased their average number of meetings this year from three to four. Meetings of the compensation, nominating and public affairs committees decreased by one.

6. Compensation (Table 6)

Retailers, who in the past often paid an annual fee only, have now turned largely to the annual plus per-meeting fee. Eighty-eight percent of the retailers compensate their outside directors on an annual plus per-meeting basis, an increase from 76 percent last year. Conversely, the percentage paying an annual fee only decreased from 18

percent last year to eight percent in 1984 and decreased from six percent to four percent for per-meeting fees only.

-Annual Plus Per-Meeting Fee (87.5 percent of the respondents).

The retail respondents increased the total average annual compensation for their outside directors by 12 percent this year to $21,400, compared with $19,120 last year. This is 14 percent more than the total compensation for all respondents ($18,800). The total comprises an average annual fee of $14,500 and an average per-meeting fee of $669. Since 1983, the percentage of retailing directors who earn $25,000 or more increased from 12 to 20 percent. (In 1980, the average compensation for all retailers was less than $20,000 per year.)

The upper quartile average for retailers, included in this section for comparative purposes, is $31,100 -- up 13 percent from last year's $27,500 and 15 percent above the $27,100 average for all respondents.

The retail industry as a group registered the greatest gains in 1984 board compensation.

-Annual Fee Only

For retailers using this method of compensation, the average annual fee is $12,000, a slight dip from last

year's $12,500. But only two retailing companies paid an annual fee only in 1984, compared with six companies last year.

-Per-Meeting Fee Only

For retail directors compensated in this manner, the average per-meeeting fee is $200. Only one company reported compensating directors in this manner.

7. **Committee Compensation (Table 7)**

Ninety-two percent of the retail respondents pay their outside directors additionally for committee service, compared with 88 percent for all respondents. But, as with all respondents, the method of compensation has shifted. While most still pay a per-meeting fee only, the percentage paying in this manner has dropped considerably from 73 percent in our Eighth Annual Study and from 56 percent in 1983 to 48 percent this year. The method of compensation has shifted to the annual plus per-meeting fee system of compensation -- from 34 percent last year to 44 percent this year. Nine percent pay an annual fee only.

Among retailers, the average per-meeting fee only for committee members averages $856, rising to $892 for committee chairmen.

8. **Additional Compensation Information (Table 8)**

Thirty-six percent of the retail respondents raised outside director fees an average $2,520 during the past 12 months. This is slightly less than the average increase of $2,710 for all respondents. Fifteen percent of the retailers project increasing board fees during the next 12 months.

The highest paid outside retail director earns an average $30,390 per year for all board services exclusive of any consulting arrangements. This represents a 32 percent increase over last year's average of $23,050, and a more than 100 percent increase over the 1980 average of $14,900. The upper quartile average in this category is $54,200 for retail directors -- higher than the average $41,600 for all directors (Table 8A). Five of the retail respondents have outside directors who also receive consulting fees.

As with all directors, benefits are becoming an increasingly important part of compensation plans for outside directors of retail companies. Forty-six percent allow their outside directors to defer board fees until retirement. Twenty-five percent provide retirement income plans (up from 24 percent last year). Other benefits include matching educational gifts programs (cited by 40 percent vs. 32 percent last year), accident insurance (60 percent vs. 48 percent) and pension plans, now offered by 25 percent of the respondents, up from 20 percent. Travel

expense reimbursement and directors' liability insurance are commonly included and reported by 100 percent and 85 percent respectively (Table 8B).

Eighty-eight percent of the retailers have procedures whereby directors annually review and establish appropriate compensation for their chief executive officers and 92 per-percent for other senior officers.

Sixty-four percent believe that their outside directors are adequately compensated, compared with 97 percent in 1983, and yet the retail industry as a group registered the biggest gains in yearly compensation.

-Stock Ownership

Seventy-two percent of the respondents stated that stock options should not be part of directors' compensation, although 48 percent of corporate bylaws allow for them, more than any other industry segment. However, 80 percent of the participating retail firms believe that all directors should own a minimum of 100 shares of company stock. Twenty-eight percent believe directors should own 1,000 shares or more.

All but one retailing company report that outside directors own stock in their companies. Thirty-six percent report that their outside directors own an average of one

to 4,000 shares, and 28 percent report owning between 500 and 5,000 shares.

9. Board Practices and Policies (Table 9)

The retail respondents average seven regular board meetings per year -- one less than the average for all respondents. Fifty-six percent hold at least one of these meetings outside their headquarters or major facility city.

The estimated time outside directors of retail companies devote annually to board-related business was reported at 109 hours, a substantial decrease from the 130 hours reported in 1983, but up from the 93 hours two years ago and the 91 hours reported five years ago. If compensated on an annual plus per-meeting basis, these directors earn an average $196 per hour -- the highest hourly rate of all respondents. The upper quartile average number of hours for retail directors is 170 compared with 190 hours reported by all respondents (Table 9A).

Although 28 percent of the retail respondents had an outside director resign from the board, primarily due to retirement, 40 percent added new outside directors to their boards. In selecting and identifying new directors, retailers continue to rely heavily on the recommendations of the chairmen and other board members. The use of the nominating committee, however, continues to grow. This

year, 59 percent cited its use in the selection process (Table 9B). Corporate experience continues to be the primary consideration in asking prospective directors to sit on the board (Table 9C). Twenty-four percent had a prospective director decline an invitation to serve on their board, down from last year's 33 percent, but higher than the 17 percent for all respondents. Retailers continue to experience the greatest number of refusals to serve on corporate boards.

10. Board Issues (Table 10)

When asked to rank the relative importance of various issues facing corporate boards today, retail companies, like all respondents, rate financial results well above the other issues. Eighty-four percent ranked it first, second or third. Strategic planning, the second most important issue, was placed as one, two or three by 52 percent, compared with 55 percent in 1983. Other significant issues include financing/capitalization, day-to-day operations and managerial succession.

When asked to project rankings for the same issues five years from now, financial results again was placed first in importance (32 percent), followed by strategic planning (28 percent).

TABLE 1 - PARTICIPATING COMPANIES

Twenty-five of America's major retailers participated in our Twelfth Annual Study.

Size (Sales)	No. of Retailers	%
Under $2 billion	9	36.0%
$2 billion and over	16	64.0%
TOTAL	25	100.0%

Stock Exchange	No. of Retailers	%
New York Stock Exchange	19	76.0%
American Stock Exchange	2	8.0%
Over-The-Counter	3	12.0%
Other	1	4.0%
TOTAL	25	100.0%

TABLE 2 - PRESENT NUMBER OF BOARD MEMBERS

Size of Company	Average Number of Inside Directors	Average Number of Outside Directors	Average Number of Directors
Under $2 billion	4	6	10
$2 billion and over	6	13	19
Average	5	11	16

TABLE 3 - CHAIRMAN ALSO CEO, CEO ALSO COO

Is the Chairman of the Board also the Chief Executive Officer?
Is the Chief Executive Officer also the Chief Operating Officer?

	% CEO	% COO
Yes	75.0%	48.0%
No	25.0%	52.0%
TOTAL	100.0%	100.0%

TABLE 4 - BOARD COMPOSITION

4A. Are one or more of the following individuals on the board?

	1980 Retailers	1984 Retailers	1984 All Companies Surveyed
Senior Executives (other companies)	75.0%	84.0%	87.5%
Retired or Previously Employed Corporate Officer	59.4%	32.0%	46.0%
Commercial Banker	40.6%	20.0%	31.3%
Attorney (provides legal services to the company)	40.6%	36.0%	28.4%
Academician	59.4%	56.0%	51.5%
Investment Banker	25.0%	32.0%	24.3%
Major Shareholder (not officer of the company)	31.3%	36.0%	29.2%
Attorney (does not provide legal services to company)	50.0%	24.0%	33.5%
Former Government Official	25.0%	20.0%	30.8%
Female	50.0%	68.0%	44.7%
Ethnic Minority Representative	18.8%	40.0%	26.2%
"Professional" Director	25.0%	24.0%	17.9%
Retired Executive (other companies)	59.4%	64.0%	69.4%

4B. From which of the above functions are most women and ethnic minorities drawn?

Function	% Women	% Minorities
Senior Executives (other companies)	23.5%	30.0%
Academicians	35.3%	20.0%
Former Government Officials	5.9%	----
Attorneys (do not provide legal services)	11.8%	20.0%
Retired Executives (other companies)	11.8%	10.0%

TABLE 5 - COMMITTEES

5A. Which of the following standing committees does the Board have?

Committee	1980 Retailers	1984 Retailers	1984 All Companies Surveyed
Audit	96.9%	100.0%	97.6%
Executive	84.4%	84.0%	79.9%
Compensation	81.3%	88.0%	85.5%
Finance	37.5%	36.0%	37.8%
Nominating	62.5%	64.0%	61.5%
Public Affairs	18.8%	20.0%	11.5%
Corporate Ethics	12.5%	16.0%	7.0%
Benefits	40.6%	40.0%	33.6%

5B. What is the composition of each committee?

Committee	Average # Inside Directors	Average # Outside Directors	Average # Directors
Audit	0	4	4
Executive	2	3	5
Compensation	1	3	4
Finance	2	4	6
Nominating	1	4	5
Public Affairs	1	5	6
Corporate Ethics	1	3	4
Benefits	1	3	4

5C. How many committee meetings were held during the past twelve months?

Committee	1980 Average Number of Meetings	1983 Average Number of Meetings	1984 Average Number of Meetings
Audit	4	3	3
Executive	4	2	2
Compensation	4	4	3
Finance	5	3	4
Nominating	2	3	2
Public Affairs	3	3	2
Corporate Ethics	2	-	3
Benefits	3	3	4

TABLE 6 - COMPENSATION

Annual Plus Per-Meeting Fee (87.5 percent of the respondents)

Annual Fee Amount	%
Under - $ 7,000	14.0%
$ 7,000 - $10,999	14.2%
$11,000 - $13,999	4.8%
$14,000 - $16,999	33.3%
$17,000 - $19,999	9.5%
$20,000 - $24,999	19.4%
$25,000 and over	4.8%
TOTAL	100.0%
Average Total Annual Fee	$14,500

PLUS

Amount Per Meeting	%
Under $500	4.8%
$500 - $599	28.6%
$600 - $700	47.6%
$800 and over	19.0%
TOTAL	100.0%
Average Per-Meeting Fee	$669

EQUALS

Total Annual Compensation	%
Under $14,000	15.0%
$14,000 - $16,999	10.0%
$17,000 - $19,999	25.0%
$20,000 - $24,999	30.0%
$25,000 and over	20.0%
TOTAL	100.0%
Average Total Annual Compensation	$21,400

Annual Plus Per-Meeting Fee (continued)

Type and Size of Company	Average Compensation	Upper Quartile Average
Retailers	$21,400	$31,100
Banks and other Financial Institutions	$17,500	$27,000
Insurance companies	$16,400	$27,300
Service companies	$18,900	$27,900
Industrials		
Under $200 million	$12,300	$18,200
$200 million - $399 million	$13,000	$14,100
$400 million - $599 million	$15,200	$20,300
$600 million - $999 million	$17,900	$24,800
$1 billion - $2.999 billion	$20,300	$27,500
$3 billion - $4.999 billion	$24,400	$29,500
$5 billion and over	$26,300	$36,100
Average	$18,800	$27,100

TABLE 7 - COMMITTEE COMPENSATION

7. Are outside directors paid an extra fee for serving on a committee?

	%
Yes	92.0%
No	4.0%
No response	4.0%
TOTAL	100.0%

If yes, how are they compensated?

Compensation	% 1983	% 1984
Per-Meeting Fee Only	56.2%	47.8%
Annual plus Per-Meeting Fee	34.4%	43.5%
Annual Fee Only	6.2%	8.7%
No response	3.1%	---
TOTAL	100.0%	100.0%

TABLE 8 - ADDITIONAL COMPENSATION INFORMATION

8A. How much did the highest paid director receive in 1983 for all board service activities exclusive of any consulting arrangements?

Amount	%
Under $ 7,000	---
$ 7,000 - $16,999	9.5%
$17,000 - $19,999	23.8%
$20,000 - $24,999	9.5%
$25,000 - $24,999	14.3%
$30,000 - $39,000	19.1%
$40,000 and over	23.8%
TOTAL	100.0%
Average	$30,390

Highest Paid Director

Type and Size of Company	Average Compensation	Upper Quartile Average
Retailers	$30,390	$54,200
Banks and other Financial Institutions	$22,830	$38,100
Insurance companies	$24,890	$48,100
Service companies	$27,090	$46,000
Industrials		
Under $200 million	$14,650	$23,600
$200 million - $399 million	$16,210	$28,000
$400 million - $599 million	$18,630	$25,600
$600 million - $999 million	$23,110	$37,800
$1 billion - $2.999 billion	$25,200	$36,000
$3 billion - $4.999 billion	$32,600	$43,800
$5 billion and over	$34,300	$69,100
Average	$24,440	$41,600

8B. What benefits are included in the compensation plan for outside directors?

	% Retailers	% All Companies Surveyed
Travel Expense Reimbursement	100.0%	90.8%
Directors Liability Insurance	85.0%	87.0%
Deferral of Board Fees Until Retirement	46.0%	60.3%
Accident Insurance	60.0%	47.2%
Travel Expenses for Spouse	15.0%	26.7%
Matching Educational Gifts Program	40.0%	48.2%
Life Insurance	25.0%	22.1%
Retirement Income Plan	25.0%	19.9%
Pension Plan	15.0%	12.8%

TABLE 9 - BOARD PRACTICES AND POLICIES

9A. How many hours (estimated) do directors spend annually on board matters including review and preparation time, meeting attendance and travel?

Number of Hours	%
40 and under	----
41 to 70	20.0%
71 to 100	20.0%
101 to 160	44.0%
161 and over	8.0%
No Response	8.0%
TOTAL	100.0%
Average	109 hours

Hours

Type and Size of Company	Number of Hours	Upper Quartile Average
Retailers	109	170
Banks and other Financial Institutions	114	189
Insurance companies	111	170
Industrials		
Under $200 million	102	168
$200 million - $399 million	93	143
$400 million - $599 million	102	165
$600 million - $999 million	108	177
$1 billion - $2.999 billion	139	196
$3 billion - $4.999 billion	141	213
$5 billion and over	164	224
Average	121	190

9B. How are outside directors located for the board?

	%
Recommended by chairman	77.2%
Recommended by board members	81.8%
Nominated by committee	59.1%
Recommended by other corporate officers	54.5%
Executive search	4.5%

9C. What are the primary considerations in asking a prospective director to sit on the board?

	%
Corporate Experience	81.0%
Specific Functional Experience	19.0%
Specific Industry Experience	28.6%
Prestige	4.8%

TABLE 10 - ISSUES

What is the relative importance of each of the following issues?

	Percent Ranking No. 1	Percent Ranking No. 1 or 2	Percent Ranking No. 1, 2, or 3
Financial results	68.0%	80.0%	84.0%
Strategic planning	12.0%	36.0%	52.0%
Financing/capitalization	----	4.0%	28.0%
Day-to-Day operations	16.0%	32.0%	32.0%
Managerial succession	4.0%	20.0%	36.0%
Mergers/acquisitions	----	8.0%	20.0%
Shareholder relations	----	4.0%	8.0%
Corporate ethics	----	8.0%	8.0%

PROFILE OF KORN/FERRY INTERNATIONAL

Korn/Ferry International is the largest executive search firm in the world today.

Headquartered in New York and Los Angeles, Korn/Ferry maintains a worldwide network of 36 offices in 16 countries and 35 cities.

Korn/Ferry's practice is broad-based, serving the specific needs of clients through 10 specialty search divisions:

Board Services
Energy
Entertainment
Fashion/Retail
Financial Services
Government/Not-for-Profit/Education
Health Care
High Technology
Hospitality/Leisure
Real Estate

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